

RUSSELL COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, IA 50265

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Russell Community School District

Officials

| <u>NAME</u> | <u>TITLE</u> | <u>EXPIRES</u> |
|--|----------------------------------|----------------|
| <u>Board of Education</u> (Before September, 2004 Election) | | |
| Ken Burger | President | 2004 |
| Duane Bedford | Vice-President | 2006 |
| Mike Holmes | Board Member | 2005 |
| Anita Duckworth | Board Member | 2005 |
| Mark McCurdy | Board Member | 2004 |
| <u>Board of Education</u> (After September, 2004 Election) | | |
| Ken Burger | President | 2007 |
| Duane Bedford | Vice-President | 2006 |
| Mike Holmes | Board Member | 2005 |
| Anita Duckworth | Board Member | 2005 |
| Jacque Chester | Board Member | 2007 |
| <u>School Officials</u> | | |
| Robert McCurdy | Superintendent | 2005 |
| Kathy Mills | District Secretary and Treasurer | 2005 |
| Paul Goldsmith | Attorney | 2005 |
| Sue Seitz | Attorney | 2005 |

Russell Community School District

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IOWA 50265

(515) 277-3077

Independent Auditor's Report

To the Board of Education of
Russell Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Russell Community School District, Russell, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Russell Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principals.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2005 on our consideration of Russell Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Russell Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

August 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Russell Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$1,482,112 in fiscal 2004 to \$1,655,119 in fiscal 2005. General Fund expenditures increased from \$1,600,293 in fiscal 2004 to \$1,693,216 in fiscal 2005. The District's General Fund balance decreased from a deficit of (\$115,215) in fiscal 2004, to a deficit of (\$122,414) in fiscal 2005, a 6% decrease.
- The increase in General Fund revenues was attributable to NO across the board cut during fiscal 2005, finding R.E.A.P. funds that had not been claimed, and filing for claimaid funds that were available for some Special Education costs. The increase of expenditures was mainly due to the increase of staff and cost of salary and benefits. Another factor was the increase cost of open enrollment payments. The result was that in the General Fund there was deficit spending. There was not enough carryover to pay for salaries and benefits due for July and August. The bleeding was slowed down but not stopped.
- Interest rates have not rebounded but the district is earning more interest income than fiscal 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Russell Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements report Russell Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The governmental fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. The proprietary fund financial statements offer short-term and long-term financial information about activities the District operates like a business. In Russell Community School District, the school nutrition program operations are the only enterprise reported as a proprietary fund.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Russell Community School District Annual Financial Report

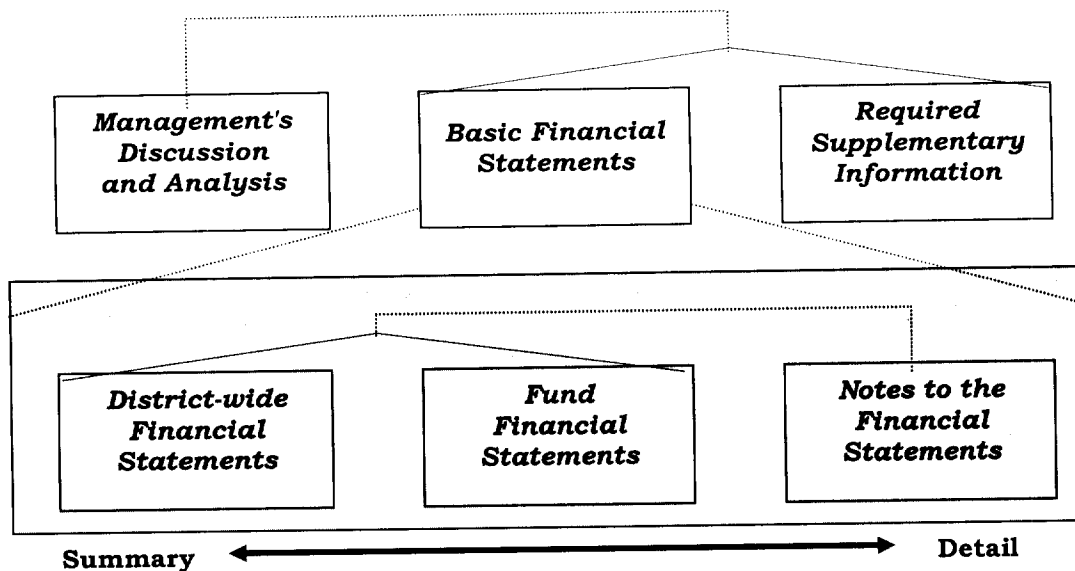


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

| Figure A-2 Major Features of the Government-wide and Fund Financial Statements | | | | |
|---|--|--|--|--|
| | Government-wide Statements | Fund Statements | | |
| | | Governmental Funds | Proprietary Funds | |
| Scope | Entire District (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Activities the District operates similar to private businesses: food services and adult education | |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows | |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, short-term and long-term | |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2005 compared to June 30, 2004.

| Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands) | | | | | | | |
|--|-------------------------|-------|--------------------------|------|----------------|-------|--------------|
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2004-2005 |
| Current and other assets | \$ 1,340 | 1,005 | 29 | 30 | 1,369 | 1,035 | 32.3% |
| Capital assets | 230 | 251 | 5 | 5 | 235 | 256 | -8.2% |
| Total assets | 1,570 | 1,256 | 34 | 35 | 1,604 | 1,291 | 24.2% |
| Long-term liabilities | 31 | 48 | - | - | 31 | 48 | -35.4% |
| Other liabilities | 1,284 | 1,027 | - | 2 | 1,284 | 1,029 | 24.8% |
| Total liabilities | 1,315 | 1,075 | - | 2 | 1,315 | 1,077 | 22.1% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 287 | 203 | 5 | 5 | 292 | 208 | 40.4% |
| Restricted | 40 | 47 | - | - | 40 | 47 | -14.9% |
| Unrestricted | (72) | (69) | 29 | 28 | (43) | (41) | -4.9% |
| Total net assets | \$ 255 | 181 | 34 | 33 | 289 | 214 | 35.0% |

The District's combined net assets increased by nearly 35%, or approximately \$75,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$7,000, or 15% under the prior year. The decrease was primarily a result of spending more than what was received in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$2,000, or 4.9%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the year ended June 30, 2005 and 2004.

| Figure A-4 Changes in Net Assets (Expressed in Thousands) | | | | | | |
|--|-------------------------|-------|--------------------------|------|----------------|-------|
| | Governmental Activities | | Business Type Activities | | Total District | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for service | \$ 91 | 117 | 22 | 23 | 113 | 140 |
| Operating grants, contributions and restricted interest | 355 | 236 | 44 | 41 | 399 | 277 |
| General revenues: | | | | | | |
| Property tax | 541 | 539 | - | - | 541 | 539 |
| Income surtax | 52 | 47 | - | - | 52 | 47 |
| Local option sales and services tax | 88 | - | - | - | 88 | - |
| Unrestricted state grants | 740 | 649 | - | - | 740 | 649 |
| Unrestricted investment earnings | 9 | 3 | - | - | 9 | 3 |
| Other | 10 | 5 | - | - | 10 | 5 |
| Total revenues | 1,886 | 1,596 | 66 | 64 | 1,952 | 1,660 |
| Program expenses: | | | | | | |
| Instruction | 1,272 | 1,143 | - | - | 1,272 | 1,143 |
| Support services | 464 | 540 | - | - | 464 | 540 |
| Non-instructional programs | - | 3 | 65 | 66 | 65 | 69 |
| Other expenses | 76 | 68 | - | - | 76 | 68 |
| Total expenses | 1,812 | 1,754 | 65 | 66 | 1,877 | 1,820 |
| Increase (decrease) in net assets | 74 | (158) | 1 | (2) | 75 | (160) |
| Net assets beginning of year | 181 | 339 | 33 | 35 | 214 | 374 |
| Net assets end of year | \$ 255 | 181 | 34 | 33 | 289 | 214 |

Property tax and unrestricted state grants account for 66% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$1,886,812 and expenses were \$1,812,912. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues and balances.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

| Figure A-5 Total and Net Cost of Governmental Activities (Expressed in Thousands) | | |
|--|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services |
| Instruction | \$ 1,272 | 883 |
| Support services | 464 | 464 |
| Non-instructional programs | - | - |
| Other expenses | 76 | 19 |
| Total | \$ 1,812 | 1,366 |

- The cost financed by users of the District's programs was \$91,220.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$335,173.
- The net cost of governmental activities was financed with \$681,753 in property and other taxes, including local option sales and services tax, and \$739,740 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$66,709 and expenses were \$65,100. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Russell Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$6,234, well above last year's ending fund balance of (\$67,765).

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Even though revenues increased, expenditures still exceeded revenues. Because revenues were less expenditures, the District had to incur deficit spending to meet its financial obligations during the year.
- The General Fund balance decreased from (\$115,215) to (\$122,414), due in part to the negotiated salary and benefits settlement, the cost of open enrollment, and existing expenditure commitments of the District.

- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from \$25,954 in fiscal 2004 to \$16,975 in fiscal 2005. While revenues remained approximately the same, the District spent more than what they received in the PEEL Fund.
- In fiscal 2004, Lucas County passed the Local Option Sales Tax, and the District began receiving revenue from this tax in fiscal 2005. Revenue for the year in this fund was \$88,090, with no expenditures in fiscal 2005.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$32,883 at June 30, 2004 to \$34,492 at June 30, 2005, representing an increase of approximately 5%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Russell Community School District did not amend its annual budget.

The District's receipts were \$17,046 more than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving more federal funds than originally anticipated.

Total disbursements were \$28,923 less than budgeted disbursements, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and other expenditures functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested, net of accumulated depreciation, \$235,000 in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 8.2% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$20,928 for both governmental and business type activities.

The original cost of the District's capital assets was \$670,000. Governmental funds account for \$634,000, with the remainder of \$36,000 accounted for in the Proprietary, School Nutrition Fund.

| Figure A-6 Capital Assets, net of Depreciation (Expressed in Thousands) | | | | | | | |
|--|--------------|------|---------------|------|----------|------|-----------|
| | Governmental | | Business Type | | Total | | Total |
| | Activities | | Activities | | District | | Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2004-2005 |
| Land | \$ 38 | 38 | - | - | 38 | 38 | 0.0% |
| Buildings | 79 | 83 | - | - | 79 | 83 | -4.8% |
| Improvements other than buildings | 56 | 60 | - | - | 56 | 60 | -6.7% |
| Furniture and equipment | 57 | 70 | 5 | 5 | 62 | 75 | -17.3% |
| Totals | \$ 230 | 251 | 5 | 5 | 235 | 256 | -8.2% |

Long-Term Debt

At June 30, 2005, the District had \$30,898 in capitalized lease obligations outstanding. This represents a decrease of approximately 35.4% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

| Figure A-7 Outstanding Long-term obligations (Expressed in Thousands) | | | |
|--|----------------|------|--------------|
| | Total District | | Total Change |
| | June 30, | | June 30, |
| | 2005 | 2004 | 2004-2005 |
| Capital loan notes | \$ - | 12 | -100.0% |
| Capitalized lease obligations | 31 | 36 | -13.9% |
| Totals | \$ 31 | 48 | -35.4% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Lucas and Wayne Counties are in an economic bind, fewer births, fewer farm homes with school age children. Put together with higher academic expectations, teacher shortage areas, higher teacher pay and the high number of students who walk away with district funds because of open enrollment, which needs to be addressed very soon.
- The District has been given some help by the School Budget Review Committee. That help will be gone fiscal 2008. The Board of Education must address this issue soon.
- The District has experienced declining enrollment for the past several years, it looks like that this trend will continue.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kathy Mills, District Secretary/Treasurer, Russell Community School District, 410 East Smith, Russell, Iowa, 50238.

Basic Financial Statements

Russell Community School District

Exhibit A

Statement of Net Assets

June 30, 2005

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|------------------|
| Assets | | | |
| Cash and cash equivalents: | | | |
| ISCAP | \$ 531,101 | - | 531,101 |
| Other | 104,278 | 23,565 | 127,843 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 17,123 | - | 17,123 |
| Succeeding year | 537,086 | - | 537,086 |
| Accrued interest: | | | |
| ISCAP | 2,964 | - | 2,964 |
| Due from other funds | - | 1,077 | 1,077 |
| Due from other governments | 147,877 | - | 147,877 |
| Inventories | - | 4,517 | 4,517 |
| Capital assets, net of accumulated depreciation | 229,501 | 5,333 | 234,834 |
| Total assets | 1,569,930 | 34,492 | 1,604,422 |
| Liabilities | | | |
| Accounts payable | 4,840 | - | 4,840 |
| Excess of warrants issued over bank balance | 57,258 | - | 57,258 |
| Salaries and benefits payable | 125,729 | - | 125,729 |
| Due to other funds | 1,077 | - | 1,077 |
| Other liabilities | 5,764 | - | 5,764 |
| Deferred revenue - succeeding year | | | |
| property tax | 537,086 | - | 537,086 |
| ISCAP warrants payable | 549,000 | - | 549,000 |
| ISCAP accrued interest payable | 3,218 | - | 3,218 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Capitalized lease obligations | 6,361 | - | 6,361 |
| Portion due after one year: | | | |
| Capitalized lease obligations | 24,537 | - | 24,537 |
| Total liabilities | 1,314,870 | - | 1,314,870 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 287,163 | 5,333 | 292,496 |
| Restricted for: | | | |
| Management levy | (7,945) | - | (7,945) |
| Physical plant and equipment levy | 16,975 | - | 16,975 |
| Other special revenue purposes | 31,061 | - | 31,061 |
| Unrestricted | (72,194) | 29,159 | (43,035) |
| Total net assets | \$ 255,060 | 34,492 | 289,552 |

See notes to financial statements.

Russell Community School District

Statement of Activities

Year ended June 30, 2005

| Functions / Programs | Expenses | Program Revenues | | |
|---|---------------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 915,992 | 26,085 | 111,051 | - |
| Special instruction | 96,436 | - | 104,530 | - |
| Other instruction | 259,563 | 65,135 | 82,222 | - |
| | <u>1,271,991</u> | <u>91,220</u> | <u>297,803</u> | <u>-</u> |
| Support services: | | | | |
| Student services | 26,319 | - | - | - |
| Instructional staff services | 29,070 | - | - | - |
| Administration services | 219,083 | - | - | - |
| Operation and maintenance of plant services | 142,929 | - | - | - |
| Transportation services | 46,978 | - | - | - |
| | <u>464,379</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Non-instructional programs | <u>291</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other expenditures: | | | | |
| Facilities acquisition | 11,004 | - | - | - |
| Long-term debt interest | 903 | - | - | - |
| AEA flowthrough | 57,370 | - | 57,370 | - |
| Depreciation (unallocated)* | 6,964 | - | - | - |
| | <u>76,241</u> | <u>-</u> | <u>57,370</u> | <u>-</u> |
| Total governmental activities | <u>1,812,902</u> | <u>91,220</u> | <u>355,173</u> | <u>-</u> |
| Business type activities: | | | | |
| Non-instructional programs: | | | | |
| Food service operations | <u>65,100</u> | <u>22,317</u> | <u>44,340</u> | <u>-</u> |
| Total | <u>\$ 1,878,002</u> | <u>113,537</u> | <u>399,513</u> | <u>-</u> |

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
Income surtax
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

* This amount excludes the depreciation that is included in the direct expenses of the various programs

See notes to financial statements.

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|-------------|
| Governmental Activities | Business Type Activities | Total |
| (778,856) | - | (778,856) |
| 8,094 | - | 8,094 |
| (112,206) | - | (112,206) |
| (882,968) | - | (882,968) |
| (26,319) | - | (26,319) |
| (29,070) | - | (29,070) |
| (219,083) | - | (219,083) |
| (142,929) | - | (142,929) |
| (46,978) | - | (46,978) |
| (464,379) | - | (464,379) |
| (291) | - | (291) |
| (11,004) | - | (11,004) |
| (903) | - | (903) |
| - | - | - |
| (6,964) | - | (6,964) |
| (18,871) | - | (18,871) |
| (1,366,509) | - | (1,366,509) |
| - | 1,557 | 1,557 |
| (1,366,509) | 1,557 | (1,364,952) |
| \$ 521,496 | - | 521,496 |
| 19,607 | - | 19,607 |
| 52,560 | - | 52,560 |
| 88,090 | - | 88,090 |
| 739,740 | - | 739,740 |
| 9,066 | 52 | 9,118 |
| 9,860 | - | 9,860 |
| 1,440,419 | 52 | 1,440,471 |
| 73,910 | 1,609 | 75,519 |
| 181,150 | 32,883 | 214,033 |
| \$ 255,060 | 34,492 | 289,552 |

Balance Sheet
Governmental Funds

June 30, 2005

| | General | Nonmajor Governmental Funds | Total |
|--|---------------------|-----------------------------------|------------------|
| Assets | | | |
| Cash and pooled investments: | | | |
| ISCAP | \$ 531,101 | - | 531,101 |
| Other | - | 104,278 | 104,278 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 15,077 | 2,046 | 17,123 |
| Succeeding year | 478,640 | 58,446 | 537,086 |
| Accrued interest: | | | |
| ISCAP | 2,964 | - | 2,964 |
| Due from other funds | 20,013 | 2,560 | 22,573 |
| Due from other governments | 86,130 | 61,747 | 147,877 |
| Total assets | \$ 1,133,925 | 229,077 | 1,363,002 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 907 | 3,933 | 4,840 |
| Excess of warrants issued over bank balance | 51,777 | 5,481 | 57,258 |
| Salaries and benefits payable | 125,729 | - | 125,729 |
| Due to other funds | 3,637 | 20,013 | 23,650 |
| Other liabilities | 5,764 | - | 5,764 |
| ISCAP warrants payable | 549,000 | - | 549,000 |
| ISCAP accrued interest payable | 3,218 | - | 3,218 |
| Deferred revenue: | | | |
| Succeeding year property tax | 478,640 | 58,446 | 537,086 |
| Other | 37,667 | 12,556 | 50,223 |
| Total liabilities | 1,256,339 | 100,429 | 1,356,768 |
| Fund balances: | | | |
| Unreserved | (122,414) | 128,648 | 6,234 |
| Total fund balances | (122,414) | 128,648 | 6,234 |
| Total liabilities and fund balances | \$ 1,133,925 | 229,077 | 1,363,002 |

See notes to financial statements.

Russell Community School District

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

| | |
|--|---------------------------------|
| Total fund balances of governmental funds (page 21) | \$ 6,234 |
| <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i> | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 229,501 |
| Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. | 50,223 |
| Long-term liabilities, including capitalized lease obligations, are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(30,898)</u> |
| Net assets of governmental activities (page 18) | <u><u>\$ 255,060</u></u> |

See notes to financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2005

| | General | Nonmajor Governmental Funds | Total |
|--|--------------|-----------------------------------|-----------|
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ 515,271 | 162,882 | 678,153 |
| Tuition | 26,085 | - | 26,085 |
| Other | 18,867 | 65,194 | 84,061 |
| Intermediate sources | 2,000 | - | 2,000 |
| State sources | 883,928 | 17 | 883,945 |
| Federal sources | 208,968 | - | 208,968 |
| Total revenues | 1,655,119 | 228,093 | 1,883,212 |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular instruction | 897,940 | 18,052 | 915,992 |
| Special instruction | 95,915 | 521 | 96,436 |
| Other instruction | 195,534 | 64,029 | 259,563 |
| | 1,189,389 | 82,602 | 1,271,991 |
| Support services: | | | |
| Student services | 26,228 | 91 | 26,319 |
| Instructional staff services | 28,924 | 146 | 29,070 |
| Administration services | 212,158 | 6,407 | 218,565 |
| Operation and maintenance of plant services | 120,044 | 21,487 | 141,531 |
| Transportation services | 59,103 | 4,839 | 63,942 |
| | 446,457 | 32,970 | 479,427 |
| Non-instructional programs | - | 291 | 291 |
| Other expenditures: | | | |
| Facilities acquisition | - | 11,004 | 11,004 |
| Long-term debt: | | | |
| Principal | - | 18,267 | 18,267 |
| Interest and fiscal charges | - | 1,761 | 1,761 |
| AEA flowthrough | 57,370 | - | 57,370 |
| | 57,370 | 31,032 | 88,402 |
| Total expenditures | 1,693,216 | 146,895 | 1,840,111 |
| Excess (deficiency) of revenues over (under) expenditures | (38,097) | 81,198 | 43,101 |
| Other financing sources (uses): | | | |
| Capitalized lease obligations | 30,898 | - | 30,898 |
| Operating transfers in | - | 20,028 | 20,028 |
| Operating transfers out | - | (20,028) | (20,028) |
| Total other financing sources (uses) | 30,898 | - | 30,898 |
| Net change in fund balances | (7,199) | 81,198 | 73,999 |
| Fund balances beginning of year | (115,215) | 47,450 | (67,765) |
| Fund balances end of year | \$ (122,414) | 128,648 | 6,234 |

See notes to financial statements.

Russell Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (page 23) **\$ 73,999**

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

| | | |
|---------------------------------|-----------------|--------|
| Expenditures for capital assets | \$ 30,898 | |
| Depreciation expense | <u>(20,156)</u> | 10,742 |

In the Statement of Activities, the loss on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (32,143)

Because some revenues will not be collected for several months after the District's year end, they are not considered available resources and are deferred in the governmental funds. 3,600

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues were less than repayments, as follows:

| | | |
|--------|---------------|--------|
| Issued | (30,898) | |
| Repaid | <u>47,752</u> | 16,854 |

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

858

Change in net assets of governmental activities (page 20) **\$ 73,910**

See notes to financial statements.

Russell Community School District

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2005

| | <u>School Nutrition</u> |
|---|-----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 23,565 |
| Due from other funds | 1,077 |
| Inventories | 4,517 |
| Capital assets, net of accumulated depreciation | <u>5,333</u> |
| Total assets | <u>34,492</u> |
| Liabilities | <u>-</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 5,333 |
| Unrestricted | <u>29,159</u> |
| Total net assets | <u><u>\$ 34,492</u></u> |

See notes to financial statements.

Russell Community School District

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2005

| | <u>School</u> <u>Nutrition</u> |
|------------------------------|-----------------------------------|
| Operating revenues: | |
| Local sources: | |
| Charges for service | <u>\$ 22,317</u> |
| Operating expenses: | |
| Non-instructional programs: | |
| Food service programs: | |
| Salaries | 32,192 |
| Benefits | 4,314 |
| Purchased services | 5,764 |
| Supplies | 22,058 |
| Depreciation | <u>772</u> |
| Total operating expenses | <u>65,100</u> |
| Operating loss | <u>(42,783)</u> |
| Non-operating revenues: | |
| State sources | 962 |
| Federal sources | 43,378 |
| Interest income | <u>52</u> |
| Total non-operating revenues | <u>44,392</u> |
| Change in net assets | 1,609 |
| Net assets beginning of year | <u>32,883</u> |
| Net assets end of year | <u><u>\$ 34,492</u></u> |

See notes to financial statements.

Russell Community School District

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2005

| | <u>School Nutrition</u> |
|---|-----------------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 22,317 |
| Cash payments to employees for services | (32,192) |
| Cash payments to suppliers for goods and services | (33,697) |
| Net cash used by operating activities | <u>(43,572)</u> |
| Cash flows from non-capital financing activities: | |
| State grants received | 962 |
| Federal grants received | 39,796 |
| Net cash provided by non-capital financing activities | <u>40,758</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | <u>(1,007)</u> |
| Cash flows from investing activities: | |
| Interest income | <u>52</u> |
| Net (decrease) in cash and cash equivalents | (3,769) |
| Cash and cash equivalents at beginning of year | 27,334 |
| Cash and cash equivalents at end of year | <u>\$ 23,565</u> |
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (42,783) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Commodities used | 3,582 |
| Depreciation | 772 |
| (Increase) in due from other funds | (1,077) |
| (Increase) in inventories | (1,889) |
| (Decrease) in due to other funds | (122) |
| (Decrease) in accounts payable | (2,055) |
| Net cash used by operating activities | <u>\$ (43,572)</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$3,582.

See notes to financial statements.

Russell Community School District

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

Russell Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Russell, Iowa, and the predominate agricultural territory of Lucas, Monroe, and Wayne Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Russell Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Russell Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lucas, Monroe, and Wayne County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|-----------------------------------|----------|
| Land | \$ 2,000 |
| Buildings | 10,000 |
| Improvements other than buildings | 10,000 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other furniture and equipment | 2,500 |

Capital assets are depreciated using the straight line method over the following estimated useful lives:

| Asset Class | Estimated Useful Lives (In Years) |
|-----------------------------------|-----------------------------------|
| Buildings | 50 years |
| Improvements other than buildings | 20-50 years |
| Furniture and equipment | 5-15 years |

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate vacation time; however, the unused amounts are not paid at termination, death or retirement. Consequently, no accrual is made in the financial statements for compensated absences.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the instruction and other expenditures functional areas exceeded the amounts budgeted and the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

(3) **Due From and Due to Other Funds**

The details of interfund receivables and payables at June 30, 2005 are as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------------------------|-----------------------------------|------------------|
| General | Special Revenue: | |
| | Management Levy | \$ 1,627 |
| | Physical Plant and Equipment Levy | 18,386 |
| Special Revenue: | | |
| Physical Plant and Equipment Levy | General | 2,475 |
| Capital Projects: | | |
| Local Option Sales Tax | General | 85 |
| Enterprise: | | |
| School Nutrition | General | 1,077 |
| | | <u>\$ 23,650</u> |

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

| Transfer to | Transfer from | Amount |
|----------------|-----------------------------------|------------------|
| Debt Service: | Special Revenue: | |
| Loan and Lease | Physical Plant and Equipment Levy | \$ 20,028 |
| Total | | <u>\$ 20,028</u> |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP).

ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

| Series | Warrant Date | Final Warrant Maturity | Investments | Accrued Interest Receivable | Warrants Payable | Accrued Interest Payable |
|----------|--------------|------------------------|-------------------|-----------------------------|------------------|--------------------------|
| 2004-05A | 6/30/04 | 6/30/05 | \$ - | 37 | - | - |
| 2004-05B | 1/28/05 | 1/27/06 | 195,621 | 2,856 | 215,000 | 3,154 |
| 2005-06A | 6/30/05 | 6/30/06 | 335,480 | 71 | 334,000 | 64 |
| Total | | | <u>\$ 531,101</u> | <u>2,964</u> | <u>549,000</u> | <u>3,218</u> |

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund

receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

| Series | Balance Beginning of Year | Advances Received | Advances Repaid | Balance End of Year |
|----------|---------------------------------|----------------------|--------------------|---------------------------|
| 2003-04B | \$ 60,000 | - | 60,000 | - |
| 2004-05A | - | 60,000 | 60,000 | - |
| 2004-05B | - | 20,000 | - | 20,000 |
| Total | <u>\$ 60,000</u> | <u>80,000</u> | <u>120,000</u> | <u>20,000</u> |

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

| Series | Interest Rates on Warrants | Interest Rates on Investments |
|----------|----------------------------------|-------------------------------------|
| 2004-05A | 3.000% | 2.463% |
| 2004-05B | 3.500% | 2.280% |
| 2005-06A | <u>3.500%</u> | <u>3.903%</u> |

(6) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------------|---------------|-----------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 38,000 | - | - | 38,000 |
| Total capital assets not being depreciated | <u>38,000</u> | <u>-</u> | <u>-</u> | <u>38,000</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 285,834 | - | - | 285,834 |
| Improvements other than buildings | 161,553 | - | - | 161,553 |
| Furniture and equipment | 162,515 | 30,898 | (45,000) | 148,413 |
| Total capital assets being depreciated | <u>609,902</u> | <u>30,898</u> | <u>(45,000)</u> | <u>595,800</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 202,486 | 4,295 | - | 206,781 |
| Improvements other than buildings | 101,780 | 4,070 | - | 105,850 |
| Furniture and equipment | 92,734 | 11,791 | (12,857) | 91,668 |
| Total accumulated depreciation | <u>397,000</u> | <u>20,156</u> | <u>(12,857)</u> | <u>404,299</u> |
| Total capital assets being depreciated, net | <u>212,902</u> | <u>10,742</u> | <u>(32,143)</u> | <u>191,501</u> |
| Governmental activities capital assets, net | <u>\$ 250,902</u> | <u>10,742</u> | <u>(32,143)</u> | <u>229,501</u> |

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-----------|-----------|------------------------|
| Business type activities: | | | | |
| Furniture and equipment | \$ 34,778 | 1,007 | - | 35,785 |
| Less accumulated depreciation | 29,680 | 772 | - | 30,452 |
| Business type activities capital assets, net | \$ 5,098 | 235 | - | 5,333 |

Depreciation expense was charged to the following functions:

Government activities:

Support services:

| | |
|------------------------------------|--------|
| Administration | \$ 518 |
| Operation and maintenance of plant | 1,398 |
| Transportation | 11,276 |
| | 13,192 |

Unallocated

6,964

Total depreciation expense - governmental activities

\$ 20,156

Business type activities:

Food service operations \$ 772

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

| | Balance Beginning of Year | Additions | Reductions | Balance End of Year | Due Within One Year |
|-------------------------------|---------------------------------|-----------|------------|---------------------------|---------------------------|
| Capital loan notes | \$ 12,192 | - | 12,192 | - | - |
| Capitalized lease obligations | 35,560 | 30,898 | 35,560 | 30,898 | 6,361 |
| Total | \$ 47,752 | 30,898 | 47,752 | 30,898 | 6,361 |

Capital Loan Notes

The District borrowed \$45,000 to finance the purchase of a school bus. The Notes were paid off during the fiscal year.

Capitalized Lease Obligations

In fiscal year 2003, the District entered into a capital lease for the purchase of a bus. In fiscal year 2005, in exchange for the return of the bus, the leasing company forgave \$29,485 in principal payments in relation to this bus. Because no money changed hands, the \$29,485 is not shown as an expenditure on Schedule 2.

In fiscal year 2005, the District entered into a capital lease for the purchase of a bus. The bus has been capitalized at cost.

Future minimum lease payments for the capital lease commitment is as follows:

| <u>Year Ended- June 30</u> | <u>Amount</u> |
|---|-----------------|
| 2006 | \$ 6,992 |
| 2007 | 6,992 |
| 2008 | 6,992 |
| 2009 | 6,992 |
| 2010 | <u>6,992</u> |
| Total | 34,960 |
| Less amount attributable to interest | <u>4,062</u> |
| Present value of minimum lease payments | <u>\$30,898</u> |

The interest rate on the capitalized lease is 5.45%, and is imputed based on the lessor's implicit rate of return.

(8) Operating Lease Agreements

The District is leasing two copy machines for 60 months at \$689 per month. Future required payments are:

| <u>Year Ended June 30,</u> | <u>Amount</u> |
|--------------------------------|------------------|
| 2006 | \$ 8,963 |
| 2007 | 8,273 |
| 2008 | <u>3,566</u> |
| Total | <u>\$ 20,802</u> |

Total rent expense during the fiscal year on these agreements was \$7,583.

(9) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$42,860, \$49,521, and \$49,121 respectively, equal to the required contributions for each year.

(10) Risk Management

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$5,112, of which \$2,556 was paid with the 2004-2005 premiums and \$2,556 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which included deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005, were \$130,355.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

Russell Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$57,370 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Deficit Fund Balance

The General Fund had an unreserved, undesignated deficit balance of \$122,414 at June 30, 2005. The Special Revenue - Management Levy Fund had an unreserved, undesignated deficit balance of \$7,945 at June 30, 2005.

Russell Community School District

Required Supplementary Information

Russell Community School District

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

| | Governmental Funds Actual | Proprietary Fund Actual | Total Actual | Budgeted Amounts | Budget to Actual Variance |
|---|------------------------------|----------------------------|--------------|---------------------|---------------------------------|
| Receipts: | | | | | |
| Local sources | \$ 735,660 | 22,369 | 758,029 | 763,626 | (5,597) |
| Intermediate sources | 2,000 | - | 2,000 | - | 2,000 |
| State sources | 883,700 | 962 | 884,662 | 976,783 | (92,121) |
| Federal sources | 208,968 | 39,796 | 248,764 | 136,000 | 112,764 |
| Total receipts | 1,830,328 | 63,127 | 1,893,455 | 1,876,409 | 17,046 |
| Disbursements: | | | | | |
| Instruction | 1,284,438 | - | 1,284,438 | 1,234,297 | (50,141) |
| Support services | 513,542 | - | 513,542 | 611,073 | 97,531 |
| Non-instructional programs | 291 | 66,896 | 67,187 | 74,826 | 7,639 |
| Other expenditures | 88,402 | - | 88,402 | 62,296 | (26,106) |
| Total disbursements | 1,886,673 | 66,896 | 1,953,569 | 1,982,492 | 28,923 |
| Excess (deficiency) of receipts over (under) disbursements | (56,345) | (3,769) | (60,114) | (106,083) | 45,969 |
| Other financing sources, net | 30,898 | - | 30,898 | - | 30,898 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (25,447) | (3,769) | (29,216) | (106,083) | 76,867 |
| Balances beginning of year | 72,467 | 27,334 | 99,801 | 220,171 | (120,370) |
| Balances end of year | \$ 47,020 | 23,565 | 70,585 | 114,088 | (43,503) |

See accompanying independent auditor's report.

Russell Community School District

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

| | Governmental Funds | | |
|------------------------------|--------------------|-----------------------------|---------------------------|
| | Cash Basis | Accrual Adjust- ments | Modified Accrual Basis |
| Revenues | \$ 1,830,328 | 52,884 | 1,883,212 |
| Expenditures | 1,886,673 | (46,562) | 1,840,111 |
| Net | (56,345) | 99,446 | 43,101 |
| Other financing sources, net | 30,898 | - | 30,898 |
| Beginning fund balances | 72,467 | (140,232) | (67,765) |
| Ending fund balances | \$ 47,020 | (40,786) | 6,234 |

| | Proprietary Fund | | |
|----------------------|------------------|---|---------------------------|
| | Cash Basis | Enterprise Accrual Adjust- ments | Modified Accrual Basis |
| Revenues | \$ 63,127 | 3,582 | 66,709 |
| Expenses | 66,896 | (1,796) | 65,100 |
| Net | (3,769) | 5,378 | 1,609 |
| Beginning net assets | 27,334 | 5,549 | 32,883 |
| Ending net assets | \$ 23,565 | 10,927 | 34,492 |

See accompanying independent auditor's report.

Russell Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt a budget amendment.

During the year ended June 30, 2005, disbursements in the instruction and other expenditures functions exceeded the amounts budgeted and the District exceeded its General Fund unspent authorized budget.

Other Supplementary Information

Russell Community School District

Schedule 1

Combining Balance Sheet
Nonmajor Funds

June 30, 2005

| | Special Revenue | | | Capital Projects | Total |
|--|--------------------|---------------------|--|---------------------------|----------------|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | Local Option Sales Tax | |
| Assets | | | | | |
| Cash and pooled investments | \$ - | 31,061 | 33,936 | 39,281 | 104,278 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 1,427 | - | 619 | - | 2,046 |
| Succeeding year | 40,000 | - | 18,446 | - | 58,446 |
| Due from other funds | - | - | 2,475 | 85 | 2,560 |
| Due from other governments | - | - | 12,556 | 49,191 | 61,747 |
| Total assets | \$ 41,427 | 31,061 | 68,032 | 88,557 | 229,077 |
| Liabilities and Fund Equity | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 2,264 | - | 1,669 | - | 3,933 |
| Excess of warrants issued over bank balance | 5,481 | - | - | - | 5,481 |
| Due to other funds | 1,627 | - | 18,386 | - | 20,013 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 40,000 | - | 18,446 | - | 58,446 |
| Other | - | - | 12,556 | - | 12,556 |
| Total liabilities | 49,372 | - | 51,057 | - | 100,429 |
| Fund equity: | | | | | |
| Unreserved fund balances | (7,945) | 31,061 | 16,975 | 88,557 | 128,648 |
| Total liabilities and fund equity | \$ 41,427 | 31,061 | 68,032 | 88,557 | 229,077 |

See accompanying independent auditor's report.

Russell Community School District

Schedule 2

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Funds

Year ended June 30, 2005

| | Special Revenue | | | Debt Service | Capital Projects | |
|--|-----------------|------------------|-----------------------------------|----------------|------------------------|----------|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | Loan and Lease | Local Option Sales Tax | Total |
| Revenues: | | | | | | |
| Local sources: | | | | | | |
| Local tax | \$ 45,393 | - | 29,399 | - | 88,090 | 162,882 |
| Other | - | 65,135 | 59 | - | - | 65,194 |
| State sources | - | - | 17 | - | - | 17 |
| Total revenues | 45,393 | 65,135 | 29,475 | - | 88,090 | 228,093 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular instruction | 18,052 | - | - | - | - | 18,052 |
| Special instruction | 521 | - | - | - | - | 521 |
| Other instruction | 1,219 | 62,810 | - | - | - | 64,029 |
| Support services: | | | | | | |
| Student services | 91 | - | - | - | - | 91 |
| Instructional staff services | 146 | - | - | - | - | 146 |
| Administration services | 6,407 | - | - | - | - | 6,407 |
| Operation and maintenance of plant services | 14,065 | - | 7,422 | - | - | 21,487 |
| Transportation services | 4,839 | - | - | - | - | 4,839 |
| Non-instructional programs: | | | | | | |
| Food service operations | 291 | - | - | - | - | 291 |
| Other expenditures: | | | | | | |
| Facilities acquisition | - | - | 11,004 | - | - | 11,004 |
| Long-term debt: | | | | | | |
| Principal | - | - | - | 18,267 | - | 18,267 |
| Interest charges | - | - | - | 1,761 | - | 1,761 |
| Total expenditures | 45,631 | 62,810 | 18,426 | 20,028 | - | 146,895 |
| Excess (deficiency) of revenues over (under) expenditures | (238) | 2,325 | 11,049 | (20,028) | 88,090 | 81,198 |
| Other financing sources (uses): | | | | | | |
| Operating transfers in | - | - | - | 20,028 | - | 20,028 |
| Operating transfers out | - | - | (20,028) | - | - | (20,028) |
| Total other financing sources (uses) | - | - | (20,028) | 20,028 | - | - |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (238) | 2,325 | (8,979) | - | 88,090 | 81,198 |
| Fund balances beginning of year | (7,707) | 28,736 | 25,954 | - | 467 | 47,450 |
| Fund balances end of year | \$ (7,945) | 31,061 | 16,975 | - | 88,557 | 128,648 |

See accompanying independent auditor's report.

Russell Community School District

Schedule 3

Schedule of Changes
in Special Revenue Fund,
Student Activity Accounts

Year ended June 30, 2005

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|--------------------|---------------------------------|---------------|---------------|------------------------|
| Foreign Language | \$ 1,312 | - | - | 1,312 |
| All School Sports | 1,788 | 15,900 | 15,630 | 2,058 |
| Prom Gifts | 797 | 2,130 | 2,130 | 797 |
| Drama | 868 | - | - | 868 |
| Annual | 1,135 | 2,208 | 1,979 | 1,364 |
| Music | 1,012 | 663 | 920 | 755 |
| Drill Team | 392 | 371 | 241 | 522 |
| Cheerleaders | 1 | 429 | 8 | 422 |
| Concessions | 1,703 | 7,164 | 7,011 | 1,856 |
| Pop Machine | 9,117 | 13,171 | 12,362 | 9,926 |
| Student Activities | 1,764 | 7,361 | 6,557 | 2,568 |
| FFA | 2,600 | - | - | 2,600 |
| FCCLA | 212 | - | - | 212 |
| Beta | 24 | - | - | 24 |
| Class of 2011 | - | 5 | - | 5 |
| Class of 2010 | 10 | 5 | - | 15 |
| Class of 2009 | 15 | 44 | 35 | 24 |
| Class of 2008 | 276 | 561 | 25 | 812 |
| Class of 2007 | 191 | 749 | - | 940 |
| Class of 2006 | 1,048 | 3,418 | 3,508 | 958 |
| Class of 2005 | 1,913 | 6,167 | 7,813 | 267 |
| Student Council | 935 | 111 | 236 | 810 |
| Pre-school/H.S. | 662 | 3,878 | 3,890 | 650 |
| Q.S.P. | 961 | 800 | 465 | 1,296 |
| Total | <u>\$ 28,736</u> | <u>65,135</u> | <u>62,810</u> | <u>31,061</u> |

See accompanying independent auditor's report.

Russell Community School District

Schedule 4

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Three Years

| | Modified Accrual Basis | | |
|---|------------------------|------------------|------------------|
| | 2005 | 2004 | 2003 |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ 678,153 | 586,106 | 554,080 |
| Tuition | 26,085 | 47,546 | 79,995 |
| Other | 84,061 | 81,260 | 99,227 |
| Intermediate sources | 2,000 | - | - |
| State sources | 883,945 | 773,593 | 988,438 |
| Federal sources | 208,968 | 107,130 | 112,411 |
| Total | <u>\$ 1,883,212</u> | <u>1,595,635</u> | <u>1,834,151</u> |
| Expenditures: | | | |
| Instruction: | | | |
| Regular instruction | \$ 915,992 | 772,138 | 878,210 |
| Special instruction | 96,436 | 208,467 | 157,733 |
| Other instruction | 259,563 | 162,770 | 192,472 |
| Support services: | | | |
| Student services | 26,319 | 9,715 | 2,658 |
| Instructional staff services | 29,070 | 33,751 | 21,264 |
| Administration services | 218,565 | 278,527 | 263,173 |
| Operation and maintenance of plant services | 141,531 | 159,729 | 133,497 |
| Transportation services | 63,942 | 38,300 | 116,460 |
| Non-instructional programs | 291 | 2,771 | 93 |
| Other expenditures: | | | |
| Facilities acquisition | 11,004 | - | - |
| Long-term debt: | | | |
| Principal | 18,267 | 15,843 | 17,586 |
| Interest and other charges | 1,761 | 2,865 | 1,883 |
| AEA flowthrough | 57,370 | 58,119 | 62,990 |
| Total | <u>\$ 1,840,111</u> | <u>1,742,995</u> | <u>1,848,019</u> |

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IOWA 50265

(515) 277-3077

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Russell Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Russell Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 18, 2005. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Russell Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Russell Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05 and I-B-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Russell Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Russell Community School District and other parties to whom Russell Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Russell Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

August 18, 2005

RUSSELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-05 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one employee processes the invoices, prepares the checks, posts accounting records, and signs the checks.
- Recommendation - We realize that it is difficult to segregate duties with a limited number of office employees. However, the District should continue to review its operating procedures to obtain maximum control possible under the circumstances.
- Response - We will continue to investigate alternatives; however, due to the small size of our District segregation of duties is difficult.
- Conclusion - Response accepted.
- I-B-05 Bank Reconciliations - The District performs bank reconciliations for all bank accounts. However, we identified some transactions which were either not recorded or were incorrectly recorded on the computerized general ledger. Since the reconciled bank balance is not compared to the book balance as recorded on the computerized general ledger, these differences were not detected by the District.
- Recommendation - The District should reconcile, on a monthly basis, the bank balance to the book balance as recorded on the computerized general ledger, and any differences should be investigated in a timely manner.
- Response - We will review this situation and take appropriate action as necessary.
- Conclusion - Response accepted.

RUSSELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

- II-A-05 Official Depositories - Official depositories have been approved by the District. However, at times during the year, the bank balance exceeded the deposit resolution amount.
- Recommendation – The District implement procedures to ensure compliance with Chapter 12 C.2 of the Code of Iowa.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-B-05 Certified Budget - Disbursements for the year ended June 30, 2005 exceeded the certified budget amounts in the instruction and other expenditures functions. The District also exceeded its unspent authorized budget for the year ended June 30, 2005.
- Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget. The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the unspent authorized budget issue.
- Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded. We will contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.
- Conclusion – Response accepted.
- II-C-05 Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-05 Business Transactions – No business transactions between the District and District officials or employees were noted.
- II-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

RUSSELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

II-G-05 Board Minutes – Some transactions requiring Board approval had not been approved by the Board. Some invoices were not published in the newspaper as required by Chapters 279.29 and 279.35 of the Code of Iowa. On split votes, the vote of each member was not documented in the Board Minutes.

Recommendation – All expenditures should be approved by the Board and all invoices published to ensure compliance with the Code of Iowa. In addition, to ensure compliance with the Code of Iowa, on split votes, the vote of each member should be documented in the Board Minutes.

Response – We will implement these recommendations.

Conclusion – Response accepted.

II-H-05 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2004 was overstated by 1 student. In addition, the number of students reported on line 9 of this form was overstated by 1 student and line 12 was overstated by 1.68.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

II-I-05 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policies were noted, except as noted at II-A-05.

II-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-K-05 Payroll - In some cases, the District was unable to locate authorization for payroll deductions. I-9's were also incomplete on some employees. Leave hours taken by an employee were not recorded on the leave records. Instances were noted where there was no written authorization for rate of pay, and individuals were either over or underpaid

Recommendation – The District should implement procedures to ensure authorization is obtained for all payroll deductions, and that I-9's are complete for all applicable employees. All leave hours should be recorded by the District, written authorization should exist for all employees, and ensure that individuals are paid the correct amount.

Response - We will make changes as necessary.

Conclusion - Response accepted.

RUSSELL COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2005

- II-L-05 Financial Condition – The General Fund and Special Revenue - Management Levy Funds had unreserved, undesignated deficit fund balances of \$122,414 and \$7,945 at June 30, 2005, respectively.
- Recommendation - The District should continue to monitor the General Fund and the Special Revenue - Management Levy Fund and investigate alternatives to eliminate the deficits.
- Response - We will continue to monitor the General Fund and Special Revenue - Management Levy Fund. Procedures have been implemented to increase revenues and decrease expenditures.
- Conclusion - Response accepted.
- II-M-05 Disbursements – For invoices paid prior to the board meeting, the District's board policy and the Code of Iowa requires approval by the Board President prior to payment. However, we noted that this approval is not performed. Instances were noted where bills were paid off a statement and not an invoice.
- Recommendation – The Board President should approve all bills paid prior to the Board meeting, and this approval should be documented. In addition, all bills should be paid off an invoice and not a statement.
- Response – We will review these areas and take action as necessary.
- Conclusion – Response accepted.
- II-N-05 Transfers – As of June 30, 2005, various transfers are required to be made as documented in note 3 of the notes to financial statements.
- Recommendation – The District make the transfers as noted.
- Response – We will implement the recommendation.
- Conclusion – Response accepted.
- II-O-05 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.
- Recommendation – The District should obtain and retain an image of both the front and back of each cancelled check as required.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.